STUDY PROJECT

THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT--1983: ITS IMPACT ON THE ECONOMIC/POLITICAL STABILITIES WITHIN THE REGION

BY

LIEUTENANT COLONEL RODERICK J. ISLER
United States Army

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On 24 February, 1982, President Ronald Reagan announced before the Organization of American States a new bold initiative designed to promote economic development for the countries of the Caribbean and Latin America. Later, on 5 August 1983 his initiative was enacted into law as "The Caribbean Basin Economic Recovery Act-1983." The new law, often referred to as the Caribbean Basin Initiative or CBI, consists of integrated, mutually reinforcing measures in the fields of trade, investment, and financial assistance for the countries within the region. Critics in this country and in the region felt that his initiative was just another idea by a new administration to pacify and placate our neighbors to the south. After six years of CBI, the message to the world is loud and clear--its working, and the United States is serious about special incentives for countries in the region. This study examines the significant reasons as to why the CBI is working and looks at its impact on the long term prospects for economic development, stability, and security throughout the Caribbean and Latin America.

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THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT-1983: ITS IMPACT ON THE ECONOMIC/POLITICAL STABILITIES WITHIN THE REGION

AN INDIVIDUAL STUDY PROJECT

by

Lieutenant Colonel Roderick J. Isler
United States Army

Colonel George H. Allport
Project Advisor

U.S. Army War College
Carlisle Barracks, Pennsylvania 17013

ABSTRACT

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On 24 February, 1982, President Ronald Reagan announced before the Organization of American States a new bold initiative designed to promote economic development for the countries of the Caribbean and Latin America. Later, on 5 August 1983 his initiative was enacted into law as "The Caribbean Basin Economic Recovery Act-1983." The new law, often referred to as the Caribbean Basin Initiative or CBI, consists of integrated, mutually reinforcing measures in the fields of trade, investment, and financial assistance for the countries within the region. Critics in this country and in the region felt that his initiative was just another idea by a new administration to pacify and placate our neighbors to the south. After six years of CBI, the message to the world is loud and clear--its working, and the United States is serious about special incentives for countries in the region. This study examines the significant reasons as to why the CBI is working and looks at its impact on the long term prospects for economic development, stability, and security throughout the Caribbean and Latin America.

INTRODUCTION

PRESIDENT REAGAN'S INITIATIVE

On 5 August, 1983 President Ronald Reagan signed into law the Caribbean Basin Economic Recovery Act - 1983 (PL 98-67). The new law, normally referred to as the "Caribbean Basin Initiative" or CBI, fulfilled a promise that President Reagan made to the nations of Central America and the Caribbean in February 1982.

The President and his administration had campaigned vigorously for the bill to demonstrate to the politically unstable nations of Latin America and the Caribbean region that the United States was a reliable friend and could be counted upon to assist with their economic recovery and stability.[1] In a 16 February 1983 public statement following a meeting with a bipartisan group of Congressmen to discuss his proposed legislation, President Reagan stated:

> When we think of our country's security about strategic areas absolutely essential to our safety--certainly the Western Hemisphere must top the list. If we cannot respond to upheavals in our own front yard, how can we expect to play a strong role for peace in the faraway Middle East, for example...Today our democratic neighbors in the Caribbean Basin area are confronted with unprecedented political and economic pressures. Aid is important, but it is not enough. We must help these countries to renew their economies and strengthen their democracies. We must open new markets and encourage investment and business expansion which I would stress, will lead to direct benefits to the U.S. economy.[2]

On February 24, 1982, President Reagan announced before the Organization of American States his Caribbean Basin Initiative designed to promote economic development in the region. His initiative consisted of three elements: free trade, an investment incentive, and increased aid. The measure (HR 2973-PL 98-67) was designed to provide duty-free entry into the United States for certain Caribbean exports and allowed U.S. businessmen to take tax deductions for the expense of attending conventions in the region. Congress enacted the Caribbean Basin Economic Recovery Act (CBERA) on 28 July 1983 and the President signed the measure into law on 5 August 1983.[3]

CONGRESSIONAL APPROVAL

The President first introduced his plan to Congress on March 17, 1982. It was then passed by the House of Representatives in the 97th Congress on December 17, 1982. The measure, however, was never acted on by the Senate. The President resubmitted the House passed version of his basic plan on 23 February 1983. His plan was co-sponsored by the Majority and Minority Leaders of Congress and several members of the Committee on Ways and Means. The Caribbean Basin Initiative was contained in tax withholding legislation that had been opposed by the President. Nevertheless, he signed the bill into law on 5 August 1983.[4] The final provisions , as passed, stipulated that the bill was applicable to the 27 nations in Central America and the Caribbean as well as Guyana and Surinam, but Cuba was not included.

The Caribbean Basin Initiative consists of integrated, mutually reinforcing measures in the fields of trade, investment, and financial assistance to address both emergency problems and short and long range economic development. The CBI program is designed to foster self-reliance and its success rests primarily on implementation through local and foreign private sector initiative. The centerpiece of the program is the offer of one-way free trade, providing the most favorable and secure long-term access possible to the U.S. markets.[5]

PURPOSE OF STUDY

Certainly, few would deny that in the mid 1980s, the Latin American economies in general, and those of the Caribbean and Central America in particular, are suffering from the worst deterioration in terms of trade and economic stability in many years.[6] Early-on in President Reagan's first term, he recognized that this economic crisis threatens political and social stability throughout the region and creates conditions which Cuba and others might pursue to exploit by means of terrorism and acts of subversion. In my view, his initiative was very timely and right-on-target and was going after the crux of the problem--economic and political stability for the countries within the region. The question that must now be answered is: did the initiative work or not and what is the prognosis for the future? Some experts say the CBI has had remarkable success and in many ways the initial act is a precursor for free trade and open markets throughout the Americas. On the other hand, others point out that the initiative has only been marginally

successful and much is left to be done to overcome economic instability and debt reduction for the region.

The purpose of this study is to examine the Caribbean Basin Economic Recovery Act of 1983 and provide for the reader a historical perspective of the initiative and look at its long term impact on the economic development, stability, and security for the countries within the region. First, I will begin my paper with an in-depth background review of the Act itself, to include a brief overview of the recent political and economic history of the region. Secondly, I will review the results of the program after six years of implementation and examine what parts of the program did or did not work and what improvements or amendments have been made to the original program since the enactment of the law in mid 1983. Finally, I will conclude with an overview of what lies ahead for CBI. This examination will explore new initiatives and enhancements to the program and show how the CBI will impact on the future economic and political stabilities within the region.

BACKGROUND

GENERAL PURPOSE AND PROVISIONS

In responding to the economic crisis in the Caribbean region, the United States developed the CBI in close consultation with governments and private sectors of potential recipients and donor countries. The initiative stemmed in part from a meeting in July, 1981, when Secretary of State Haig and the U.S. Trade Representative,

Ambassador William E. Brock, met in Nassau with the Foreign Ministers of Canada, Mexico, and Venezuela.[7] The parties agreed to sponsor a multilateral action program for the region within which each country would develop its own program to assist with the economic development of the troubled region. At that time, Mexico and Venezuela were making significant contributions to the basin countries through their joint oil facilities. Additionally, Canada and Columbia joined as donor countries by providing preferential access to their markets.

During this time (1981), the Caribbean basin countries were seriously affected by the escalating costs of imported oil and declining prices for their major exports such as sugar and coffee. Moreover, these problems were compounded by their deep-rooted structural problems which caused serious inflation, declining gross domestic growth, high unemployment, and huge balance-of-payments deficits.[8] As mentioned earlier, the economic crisis threatened political and social stability throughout the region and potentially fostered conditions which Cuba and other countries sought to exploit through subversion and terrorism.

The overall economic objective of the Caribbean Basin Economic Recovery Act of 1983 was to promote growth through export led development stimulated by access to United States markets. The major export markets would be textiles, the agriculture industry and tourism. Additionally, the measure was designed to enhance the economic development by providing duty-free entry into the United States for certain Caribbean exports, and by allowing U.S. businessmen to take tax deductions for the expense of attending

conventions in the region. Final provisions stipulated that the bill was applicable to the 27 nations in Central America and the Caribbean as well as Guyana and Surinam, but not Cuba. Other key provisions of the bill directed that a nation would be eligible for benefits if it:

O Was not a communist Country.

O Had not nationalized, expropriated or otherwise seized ownership of U.S. property, and had not repudiated contracts, patents or trademarks of U.S. citizens.

O Had not failed to act in good faith on the results of binding arbitration in favor of U.S. citizens.

O Did not provide preferential trade treatment to the products of countries other than the United States, to the determent of U.S. commerce.

O Had not broadcast U.S. copyrighted material without the consent of the owners.

O Cooperated with the United States to prevent drug traffic.

O Had signed as extradition agreement with the United States.[9]

Other eligibility requirements stipulated that beneficiary nations wishing to export beef and sugar to the United States must also implement "stable food productions plans" to ensure that land needed for food production to its citizens was not converted solely to grow export crops.[10] In sum, the Caribbean Basin Economic Recovery Act contained certain mandatory and discretionary criteria which the President must take into account when designating a country for eligibility.[11]

BENEFITS

The benefits of the new law originally provided duty-free entry into the U.S. market for twelve years for Caribbean products. Of course there were exceptions such as textiles and apparels and certain petroleum products. Additionally, watches were excluded if they contained material from countries ineligible for the Most-Favored Nations treatment under U.S. law.[12] Sugar, always a controversial trade subject would be duty free, but subject to certain quotas. The protectionism policies of the United States and Europe have always been an issue when discussing duty-free entry of such items into U.S. markets.

As mentioned earlier, the CBERA provided tourism incentives that authorized U.S. citizens tax deductions for business conventions held in eligible Caribbean countries. This tax incentive was a political compromise and was inserted by Congress to replace an investment tax credit initially proposed by the Reagan administration.[13] Included in the law also, was a special $350 million aid package which was passed previously in separate legislation during 1982.

Before final passage, special provisions were adopted for Puerto Rico and the Virgin Islands. The special provisions were a compromise to offset the increased competition these countries would face from the Caribbean competition in U.S. markets. The special provisions are as follows:

O Provided that all excise taxes collected on foreign rum brought into the United states, estimated at about $10 million a year, would be transferred to the U.S. Islands.

O Included as exemption from U.S. water pollution control laws for a Virgin Islands rum plant.

O Raised the level of permissible foreign content in Virgin Islands exports to the United States from 50 to 70 percent, except for those items exempted from the Caribbean Basin Initiative.

O Permitted travelers entering the United states to carry up to five liters of distilled spirits duty free, provided at least one liter was purchased in Puerto Rico or the Virgin Islands.[14]

PARTICIPATING COUNTRIES

On January 12, 1984, twenty countries and territories were designated as beneficiaries. These include:

Anguilla
Antigua and Barbuda
Bahamas, The
Barbados
Belize
Costa Rica
Dominica
Dominican Republic
El Salvador
Grenada
Guatemala
Guyana
Haiti
Honduras
Jamacia
Nicaragua
Panama
Saint Lucia
Saint Vincent
Suriname
Trinidad and Tobago
Caymen Islands
Montserrat
Netherlands Antilles
Saint Christopher
Turks/Caicos Island
Virgin Islands, British[15]

Aruba, formerly a part of the Netherlands Antilles, was designated on April 11, 1986 as a separate beneficiary. Interesting to note, is that Nicaragua was designated a beneficiary on November 7, 1990 after having been suspended earlier for its ties with Cuba and

other communist countries. Likewise, in March 1988, President Reagan suspended Panama's eligibility for its failure to cooperate fully with the U.S. drug control efforts. Understandably, Panama's CBI benefits were restored on March 17, 1990 following the return to a democratically elected government.[16]

FINAL PASSAGE

Obviously, the bill did not just fly through Congress as a rubber-stamped action. In House action, there was heavy labor opposition. In spite of the opposition, the House voted 289-129 to eliminate duties on certain Caribbean imports. This vote was forty-two votes higher than in 1982 which indicates that the labor-backed protectionist sentiment in the House was easing over concern for the political and economic instabilities of Central America.[17]

Opponents in the House, complained the bill would add to U.S. unemployment. As James L. Oberstar, D-Minn. stated: "Jobs will be lost in the American workplace...they will be replaced by jobs in the Caribbean, but those will be subsistence-type jobs. The workers will have no health benefit plan, no retirement plan, no vacation pay, no overtime, nothing."[18] In my view, his arguments were strictly political more than anything else.

On the other hand, supporters argued that the bill would do just the opposite and create jobs in both the United States and the Caribbean region. At that time (1982), the United States exporters enjoyed a $6 billion trade business with the region. Moreover, supporters felt that expected improvement in the economies of these nations would push exports even higher. Dan Rostenkowski, D-Ill.

argued; "We have made many promises to the people of the Caribbean...If we turn them away, they are likely to seek assistance from others who will promise them easy answers and offer political stability from the barrel of a gun."[19]

The major difference between the House and Senate versions was related to the protection of the rum trade for the U.S. Virgin Islands. The Virgin Islands were deeply concerned that the bill might in some way interfere with its lucrative rum trade with the United States. On 16 June 1983, the full Senate passed its version of the bill to HR 2973 which contained provisions protecting the Virgin Islands rum trade.[20]

The measure was finally sorted out by Congress on 28 July 1983, however, the bill was contained in a tax withholding legislation (HR 2973) that otherwise had been opposed by President Reagan. The final public law 98-67 is titled: "INTEREST AND DIVIDEND TAX COMPLIANCE ACT OF 1983-CARIBBEAN BASIN ECONOMIC RECOVERY ACT". Title I is the "INTEREST AND DIVIDEND TAX COMPLIANCE", and Title II contains the "CARIBBEAN BASIN INITIATIVE". Title II contains two subtitles. Subtitle A concerns itself with Duty Free Treatment measures and Subtitle B has the information on the law's tax provisions. As already mentioned, President Ronald Reagan, on 5 August 1983, signed into law the Caribbean Basin Economic Recovery Act-1983 (PL 98-67).

ENRICHMENTS

As a result of President Reagan's visit to Grenada in February 1986, the Caribbean Basin Initiative program was enhanced. Among the enhancements, the President announced a special program of Guaranteed Access Levels for U.S. imports of textile products assembled in CBI countries. The stipulation required the textile products that are to be assembled in CBI countries be made from fabric formed and cut to pattern in the United States. Moreover, in November of the same year, President Reagan signed into law a revision of Section 936 of the U.S. Internal Revenue Code. Contained in this revision is an allowance for qualifying CBI countries to be eligible as sites for investment using funds generated in Puerto Rico.[22]

A major amendment to the original Act was passed by Congress in August 1990. Congress passed the Caribbean Basin Economic Recovery Expansion Act of 1990, which among several provisions, repealed the expiration date of the original legislation, effectively making CBI benefits permanent. The new law is now often referred to as CBI II. Additionally, CBI II also provided some reduction of duties for certain leather flat goods but not in the important area of textiles.[23] In fact, a major issue with many beneficiary countries is the continued closed U.S. markets in the textile industries.

In my view, these new enhancements resulted from the remarkable success of the Caribbean Basin Initiative and the achievement of its major goal towards the development of

nontraditional exports. For example, in the twelve month period ending June 1989, nontraditional exports from the 22 beneficiary countries totaled $3.4 billion. As reported by the U.S. Department of State, these increases represented a total growth of more than 88% from 1983, the year before the CBI went into effect until 1989. Moreover, it is important to note that new approaches and ideas for economic development for the region are being discovered which have been encouraged by the Caribbean Basin Initiative. For example, growth in nontraditional exports has revealed that many countries that were reliant on more traditional crops such as coffee and bananas now find themselves involved in the electronic assembly industries, such as Jamaica and the Dominican Republic, or in the apparel and garment business, like Costa Rica.[24]

REPORTS

Congress, in final passage of the CEBRA, established several reports to monitor the implementation and progress of the provisions of the law. For example, The U.S. International Trade Commission is required to prepare periodic reports on the impact of the Caribbean Basin Initiative on U.S. consumers and industries. The Labor Department has a similar requirement: to monitor and review the bill's impact on the employment situation in the U.S.[25]

SIX YEARS OF CBI

Clearly, when President Ronald Reagan presented his new Caribbean Basin Initiative to the members of the Organization of the American States in 1982, many in this country and in the region felt that his idea was just another initiative by a new administration to pacify and placate our Latin American Neighbors to the south. Critics felt the initiative would be short-lived and would fade into the dark where so many previous initiatives had eventually landed. Many stated flatly that the United States would not take the unprecedented step of abandoning its long-held most-favored nation trading principle to create an exceptional incentive for one group of countries and to create special incentives for regional exports. By now, many of the investors from the region as well as the rest of the world have heard the message of CBI loud and clear--it's working, the U.S is serious about special incentives for its neighbors in the region, and new programs of trade and investments, stimulated in part by the CBI, are on the way!

Many critics felt that the timing was not right and tried to contrast the Caribbean ideas with the Asian investment initiatives of the sixties. For example, in Taiwan, the political factors in the sixties were less critical than the Caribbean of the eighties. Agrarian reform and self-sufficiency in the production of food preceded export growth for Taiwan. This was not the case for the countries in the CBI.[26] Moreover, the internal market situation in Taiwan was much

stronger than in the CBI countries. However, Taiwan does not export hardly any of what it produces. What the critics are saying, is that, before countries of the CBI take on any new export strategies, they must have strong physical and social infrastructures, good transportation systems, and a well educated populace.[27] Obviously, the Caribbean countries were at a disadvantage in this area. In spite of these critics and obvious shortcomings of stable economies and fragile political/social infrastructures, the Reagan administration pushed ahead with its initiative. Results after six years have been truly remarkable.

ACHIEVEMENTS

After six years of the Caribbean Basin Initiative, dynamic growth has been realized in the nontraditional exports, a major goal of the program. Mr. Peter D. Whitney, Director of Economic Policy for Latin America and Caribbean in the State Department, in his address to the Conference on the Caribbean, in Miami, Florida, November 29, 1989, stated; *"Dynamic growth in nontraditional exports means that in countries which were reliant on traditional crops, such as bananas, coffee, and sugar, one now sees:"*

O The construction of new plants in the Dominican Republic's rapidly expanding free zones by companies such as Westinghouse, Baxter Travenol, Hanes, GTE, and Warner Lambert;

O The establishment of electronic assembly industries in Jamaica, the Dominican Republic, and elsewhere for export to the United states and Europe. On the small island of St. Kitts, 400 people are now employed in five assembly plants;

O The tremendous growth in non-traditional fruits (such as pineapples, honeydew melons, cantaloupes, and mangoes) and vegetables from such sources as El Salvador, Guatemala, Honduras, Jamaica, Trinidad and Tobaga. Costa Rica, and Hati;

O The establishment of a brand new data entry industry for the Caribbean which employs 2,000 people in Jamaica and is growing rapidly in the Dominican Republic and Barbados;

O The creation or expansion of miscellaneous industries for export to the United States including furniture, jewelry, flowers, ornamental plants, sports equipment, and other products; and

O Finally, the rapid growth of apparel and garment factories throughout the region--notably in Jamaica, Costa Rica, and the Dominican Republic--motivated in large part by the special access for Caribbean textiles (Section 807a).[28]

As a result of the new special access for Caribbean Textiles put forth by President Reagan in February 1986, the growth of the textile/apparel industry in the region has been phenomenal. In the first six years of CBI, exports of textiles and apparel to the United States have grown over 342 percent. This is a phenomenal average annual rate of increase of 28 percent.[29] Currently there are six countries in the region who have signed agreements to implement Guaranteed Access Levels (GALS) which have grown out of the CBI special access program for the textile industries.[30] These include Costa Rica, Dominican Republic, Haiti Jamaica, Trinidad, Tobago and Guatemala. As further improvements are realized, it is expected that more countries in the region will expand their trade in this industry.

In other areas, between 1983 and 1989, the U.S. non-petroleum imports from designated CBI countries grew by 48 percent. This is an average annual growth rate of over 6.7 percent. Likewise, exports in the non-traditional products to the United States grew at an annual

growth rate of 7.2 percent for the same period. This growth rate increase was a recent success after several years of mediocre performance.[31] Taken together, the overall exports to the United States of non-traditional products and textiles/apparel from the CBI beneficiaries grew by more than 111.2 percent between 1983 and 1989, a remarkable average annual rate of 13.3 percent. Obviously, the growth rate varies widely from country to country, but even after allowing for inflation, the real growth rate in the region was an impressive 71 percent from 1983 through 1988.[32] For more detailed information concerning growth rates, country by country, see appendices A and B respectively.

As a spin-off from the CBI, freer trade has also benefited U.S. exporters. They have turned the corner after a decline of the early 1980s, and in 1989, the United States enjoyed a trade surplus with the countries in the region of $1.7 billion.[33]

INVESTMENT

There is no question that the increased investment found in the region, is due in part, to the CBI program. Granted, this is a hard area to measure, nevertheless, a 1988 survey by the Commerce Department revealed new investment in region increased $1.5 billion since the beginning of CBI.[34] President Bush's administration actively supports the CBI and has directed that all Executive Branch agencies intensify their efforts to promote new investments for the region in concert with the Caribbean Basin Initiative.[35] Based on his directive, the Department of Commerce and Agriculture, and the Overseas Private Investment Corporation (OPIC) have implemented programs to

advertise investment opportunities through CBI to potential investors. Currently, OPIC operates in all CBI countries and has outstanding financial commitments totaling $322 million for 49 projects in the region.[36] Also, OPIC has insured investments worth approximately $256 million. These results are impressive to say the least.

Additionally, the United States enjoys Tax Information Exchange Agreements (TIEAs) with several countries in the region. TIEAs can assist governments in pursuing tax evaders, especially those associated with the drug business.[37] Also, TIEAs have special benefits by providing a boost to the tourism industry through the convention tax benefit. Companies located in these countries are also eligible to apply for "935" funds from Puerto Rican banks, which are available at below-market interests rates. It has been reported that as of July 1990, $313 million in "936" loans had been disbursed for 12 companies that were located in the Caribbean region.[38]

As mentioned earlier, U.S. assistance in the form of economic aid to beneficiary Caribbean countries has been an objective of the CBI. Since the initiative was conceived in 1982, the total aid program for the region from the United States has quintupled. Of course, economic aid is not one of the main goals of the program; nevertheless, several countries are in great need of U.S. assistance in order for their development to take hold. For example, a large part of the FY '90 increase is intended to assist with the recoveries of Panama and Nicaragua.[39]

It must be understood that investments for any country cannot take hold unless host governments take positive steps to change their own economic policies in order to make it easier for

them to take advantage of the CBI trade incentives. In a U.S. State Department report, Five Years of the Caribbean Basin Initiative, Mr. Peter Whitney gave examples where host government policy changes have helped in making CBI work. These examples include:

o Developing free trade zones in Jamaica and the Dominican Republic, in part to exploit CBI opportunities;

o Creating a one-stop shop, as was done in Guatemala, for obtaining an export license to replace the numerous and time-consuming bureaucratic approvals that were previously required; and

o Adopting, in many countries, more flexible and market-determined exchange rates to ensure that exports are encouraged, privatizing inefficient parastatals, devoting more attention to marketing, and in general, encouraging the private sector as the engine for development.[40]

ISSUES

The achievements of CBI are positive and very encouraging but no one should forget that the countries involved are built on fragile economies and weak infrastructures that can break down at anytime. Moreover, most of the beneficiary countries under CBI have enormous foreign and internal debts that can stifle economic development and prevent further success of the overall program. In this regard, I recently conducted an interview with Mr. John M. Harrington, a senior U.S. State Department Official from the Bureau of Inter-American Affairs. He related to me his impressions of the achievements of CBI and we discussed some related issues associated with the program. For example, one of the big problems is that the internal trade policies of each country varies greatly and not all

countries in the CBI have taken full advantage of the benefits. The trade preferences of the CBI go hand-in-hand with the need for policy reforms that allow the private sector to take greater advantage of the CBI. Governments which have taken steps to open up their economies to CBI, such as Costa Rica and Jamaica, have seen substantial export growth and diversification. Only recently have other countries, such as El Salvador and Honduras taken similar, but sometimes politically difficult measures. For example, the Duarte government in El Salvador never really opened up its trade policies to the CBI. Today, however, El Salvador is doing much better.[41] Likewise, Honduras and Guatemala experienced similar internal policy reforms that prevented them from taking full advantage of the CBI benefits and trade initiatives. In the last several years these trade barriers have been lifted and both Honduras and Guatemala are performing much better under CBI. Mr. Harrington further points out that many producers in the CBI countries are exporting goods to the United States without fully taking advantage of CBI tariff benefits. The administration has recognized this and has initiated an aggressive awareness program to inform CBI exporters about how to document their shipments for CBI benefits.[41]

Mr. Harrington further points out that some of our trade barriers in this country have stifled some of the CBI initiatives as well. For example, sugar pricing has always been a political football in this country. Sugar pricing has always been well controlled and lobby efforts through Congress have been a barrier seldom broken.[42] He further suggested that he didn't expect any breakthroughs in this area anytime soon. These obstacles will most likely pose difficulties

with any future long term goals for free trade with countries throughout the region as envisioned in the Enterprise for the Americas Initiative (EAI) that was recently put forth by President Bush.

Similar problems were related to me in another personal interview I conducted with a member of the Guatemala Embassy (Mr. Jose Orive). From his viewpoint, the situation is a bit different. He feels that the problems with CBI are the stiff resistance from the U.S. markets, especially sugar and textiles.[43] Mr. Orive strongly feels that the future success of CBI and the Enterprise for the Americas Initiative will be hindered by the over-protectionism of U.S. Markets. These shortcomings will hinder future talks on free trade with the countries in the hemisphere. Nevertheless, he grades the CBI a huge success, especially with the dynamic growth in the non-traditional exports. A most encouraging development, according to Mr. Orive, is the consistency of the U.S. government focus on the problems of the Caribbean and Latin American countries in recent years. This consistent policy will go a long way towards making CBI and other initiatives work in the long run.

Certainly CBI is having an impact, but as pointed out earlier, living standards in the Caribbean Basin countries have not dramatically improved throughout the region. It is estimated that the 1988 overall real GDP growth in the region was 2.5 percent. This figure excludes Nicaragua and Panama. These figures are very encouraging and represent a reversal of the declines of GDP that many CBI countries experienced in early 1980s.[44] In this regard, the CBI beneficiaries will face new challenges in the 1990s as a result of a

declining U.S. trade deficit and an unanticipated downturn in the overall U.S. economic growth. Up to this point, however, most countries have kept their currencies from appreciating against the U.S. dollar. For this reason, the countries in the region have situated themselves well to sustain a high level of exports to take advantage of expanded market shares.[45]

As mentioned earlier, lower trade barrier initiatives between other countries in Latin America and the United States, will undoubtedly increase the competition for producers in the CBI region. In my view, freer trade could lead to a greater volume of trade overall and expand export opportunities for the CBI beneficiaries. It must be remembered, however, that CBI does not guarantee increased trade, investment or employment. What it does do is provide the opportunities for these benefits to occur.[46] In this regard, some expectations of the involved countries within the CBI community were unrealistically high. Again, continued success under the CBI will go to those countries with favorable domestic policies for investment and exports, and to those investors who will assume the risks of operating and conducting business in the region. Minister of Trade of Costa Rica, Muni Figueres de Jimenez, in testimony before the House Ways and Means Committee, said:

> We have embraced the CBI because of its promise to help solve such economic problems as high unemployment, foreign exchange shortages, and heavy debt burdens. The CBI has helped to create an awareness of business opportunities in the region.[47]

After six years of the Caribbean Basin Initiative, the message is clear to other countries in Europe and Asia that this region is special to the United States and the incentives and goals put forth in this program are real and will continue for the foreseeable future.

FUTURE OF CBI

The dramatic changes now taking place in the Caribbean nations and throughout Latin America are most encouraging. There are many new developments taking place and the transformation to full democracy in the region is remarkable. The trend towards more stable and market oriented economies is most promising for the 1990s and beyond. As democratic institutions take hold, the countries in the region are moving away from governmentally controlled economies to an enhanced reliance on the free market institution. Certainly, a vital link to stable democratic and political systems for the region is sustained economic growth and prosperity. Prime Minister Eugenia Charles of Dominica, stated at the outset of the Bush Administration:

> Our hopes are high that the spirit of CBI will carry forward unabated...If we have gotten nothing else from the CBI, we have learned that we are one. We are a region, indeed, with unique positions but with many common interests... Today the countries of the Caribbean islands and Central America, along with our larger neighbors north and south, are working together. We are cooperating more and more closely in the war against narcotics trafficking. We are working closely in the CBI-II policy effort. We are discovering more opportunities

for intra-Caribbean and Cross-Caribbean trade and joint ventures.[48]

Really, the vision of Mrs. Charles and others in the region is that the CBI and its cooperation and development are contributing to a regional shift toward a greater reliance on the private sector for economic stability. In my view, this vision was certainly manifested with the addition last summer of the Enterprise for the Americas Initiative (EAI) by President Bush, which I mentioned earlier in this document. This initiative was launched in part by the success of the CBI and the rapid shift to market economies throughout the hemisphere. In my interview with Dr. Harrington at the State Department, we discussed free trade for the hemisphere as one of the original goals of the CBI and now the EAI. If it were not for the overwhelming success of the CBI, the Enterprise for the American Initiative would not have been launched this early in the President's Administration. Obviously, the first step towards free trade within the region was initiated late last year with Mexico. With the free trade program already in effect with Canada, an agreement with Mexico would almost assuredly spread to other countries within the hemisphere.

ENTERPRISE FOR THE AMERICAS INITIATIVE (EAI)

President Bush's new initiative forges ahead with the success of CBI to adopt genuine partnerships for free market reform as a means of solidifying economic growth and political stability for the region. As he stated in his announcement of the EAI, *"prosperity in our*

hemisphere depends on trade, not aid" and that "the future of Latin America lies with free government and free markets." [49] This statement sounds very similar to the long term goals of the CBI. The major difference here is that the CBI deals primarily with one way incentives whereas the Enterprise for the Americas Initiative emphasizes a two-way program. The EAI's three pillars are as follows:

O Expanding trade by working with the countries of the region through the Uruguay Round of the General Agreement on tariffs and Trade and by entering into free trade agreements with the ultimate goal of a hemisphere-wide free trade system;

O Promoting investment in the region and helping countries compete for capital by reforming policies that have discouraged private investment;

O Building on successful US efforts to ease debt burdens and to increase incentives for reform by offering additional debt measures. As part of this approach, the US would support natural resources management as a key element of protecting the environment and building a strong future for the hemisphere.[50]

This initiative is certainly more encompassing than the CBI but no one can deny that it is built on the basic principles and successes of the original Caribbean Basin Economic Recovery Act of 1983. Now the next question is, what is the future of CBI? Will it die a slow death as the EAI takes hold and free trade prospers in the region?

CONCLUSION

In my opinion, the Caribbean Basin Initiative with the enhancements associated with CBI II, will continue for the foreseeable

future. There is a vital link between sound and stable democratic governments and prosperous economies. Those sub-regions within the hemisphere with the most stable political systems will transform to free trade market economies much earlier than others. For example, I see more bi-lateral trade agreements between the U.S. and individual countries or sub-regions taking hold in phases over the next decade as a prelude to free markets throughout the hemisphere. Certainly, free trade agreements with Canada and Mexico are the first steps, to be followed by similar arrangements with other countries within the region. It is likely that the countries in the Caribbean with their fragile political systems and economies, will be the last to come on-board with free trade systems. Probably, these countries will not be able to transition to truly open markets until well past the year 2000. In this regard, the CBI has a home in the region and will be instrumental in forging the path for free trade initiatives for the hemisphere. One or two of the countries within the region may mature earlier, such as Costa Rica or Jamacia, but the rest will struggle both politically and economically for years to come.

As mentioned earlier, the CBI does not guarantee increased trade or investment, but it does provide an opportunity for these to occur. Moreover what is most encouraging for the governments throughout the region, is the continued thrust and focus by the United States towards the needs of all the countries within the hemisphere. For example, it has been a continued objective of both the Reagan and Bush administrations, that the nations of Latin America and the Caribbean region become reliable friends of the US

who can be counted upon to assist with their political and economic recoveries. This policy has been a consistent approach since President Reagan's original announcement of his Caribbean Basin Initiative to the Organization of American States in early 1982, right up to President Bush's focus and initiatives of today. In fact, if everything goes right, this focus and sustained support for the region could be realized for the next several years--at least through 1996. If this happens, that will be a sustained and consistent policy for the region for close to sixteen years. This remarkable new spirit and consistent policy for the region has the potential to unleash an enormous amount of economic growth and political stability for the Caribbean Basin and throughout Latin America--the Caribbean Basin Initiative will play a large role in this development. As Mr. Harrington and I agreed, until these other programs such as the EAI and free trade initiatives get solidified and implemented--the CBI is the only game in town and the results after the first six years have been truly magnificent.

APPENDIX A

U.S. IMPORTS OF CBI-ELIGIBLE, NON-TRADITIONAL GOODS
PLUS TEXTILES/APPAREL
(thousands of U.S. dollars)

	1983	1989	average annual pct change 1983-89	12-month* period 10/89 - 9/90	total % change* 1983 - year ending 9/90
Antigua and Barbuda	6,565	4,746	-5.3%	4,164	-36.6%
Aruba	0	806	n/a	1,013	n/a
Bahamas	128,782	348,581	18.1%	384,212	198.3%
Barbados	192,205	34,584	-24.9%	28,977	-84.9%
Belize	14,109	35,277	16.5%	32,871	133.0%
British Virgin Is.	392	762	11.7%	670	70.9%
Dominica	235	7,453	77.9%	9,136	3787.7%
Dominican Republic	314,319	1,192,815	24.9%	1,270,151	304.1%
Grenada	211	6,768	78.3%	6,689	3070.1%
Guyana **	32,415	23,748	-5.1%	24,592	-24.1%
Haiti	290,412	346,747	3.0%	334,246	15.1%
Jamaica	128,211	397,660	20.8%	420,510	228.0%
Montserrat	920	2,221	15.8%	580	-37.0%
Netherlands Antilles	93,404	49,924	-9.9%	33,458	-64.2%
St. Kitts-Nevis	10,612	17,518	8.7%	16,319	53.8%
St. Lucia	4,655	23,920	31.4%	26,838	476.5%
St. Vincent	4,196	9,050	13.7%	10,530	151.0%
Trinidad and Tobago	123,554	173,437	5.8%	176,351	42.7%
CARIBBEAN	1,345,197	2,676,017	12.1%	2,781,307	106.8%
Costa Rica	134,784	652,632	30.1%	711,631	428.0%
El Salvador	120,056	122,781	0.4%	126,822	5.6%
Guatemala	60,679	266,532	28.0%	313,884	417.3%
Honduras	106,677	211,595	12.1%	230,926	116.5%
Nicaragua **	15,483	31	-64.5%	4,161	-73.1%
Panama **	178,210	211,404	2.9%	185,755	4.2%
CENTRAL AMERICA	615,889	1,464,975	15.5%	1,573,179	155.4%
CBI TOTAL	1,961,086	4,140,992	13.3%	4,354,486	122.0%

* The most recent twelve-month period for which data are available -- Oct. 1989 to Sept. 1990 -- was chosen for comparison with the 1983 level of imports.

** Guyana and Nicaragua became CBI beneficiaries in November 1988 and November 1990 respectively. Panama was suspended from CBI eligibilty in March 1988, and restored in March 1990.

Source: Department of Commerce statistics. Data from 1983 are estimated because of conversion of classification and valuation systems.

APPENDIX B

TOTAL U.S. IMPORTS FROM CBI BENEFICIARIES
(imports for consumption, customs value)
(thousands of U.S. dollars)

	1983	1989	average annual pct change 1983-89	12-month* period 10/89 - 9/90	total % change* 1983 - year ending 9/90
Antigua and Barbuda	8,809	12,274	5.7%	4,232	-52.0%
Aruba	0	1,156	n/a	1,044	n/a
Bahamas	1,676,394	460,723	-19.4%	486,245	-71.0%
Barbados	202,047	38,725	-24.1%	33,508	-83.4%
Belize	27,315	43,056	7.9%	47,389	73.5%
British Virgin Is.	880	1,112	4.0%	915	4.0%
Dominica	242	7,664	77.9%	9,343	3760.7%
Dominican Republic	806,520	1,636,931	12.5%	1,721,599	113.5%
Grenada	211	7,862	82.8%	7,543	3474.9%
Guyana **	67,332	55,858	-3.1%	58,246	-13.5%
Haiti	337,483	371,875	1.6%	352,422	4.4%
Jamaica	262,360	526,726	12.3%	567,912	116.5%
Montserrat	924	2,285	16.3%	666	-27.9%
Netherlands Antilles	2,274,510	374,358	-26.0%	306,124	-86.5%
St. Kitts-Nevis	18,758	21,447	2.3%	16,319	-13.0%
St. Lucia	4,700	23,985	31.2%	27,174	478.2%
St. Vincent	4,276	9,244	13.7%	10,536	146.4%
Trinidad and Tobago	1,317,534	765,265	-8.7%	835,546	-36.6%
CARIBBEAN	7,010,295	4,360,546	-7.6%	4,486,763	-36.0%
Costa Rica	386,520	967,901	16.5%	1,020,594	164.0%
El Salvador	358,898	243,922	-6.2%	237,301	-33.9%
Guatemala	374,692	608,280	8.4%	768,802	105.2%
Honduras	364,742	456,790	3.8%	479,406	31.4%
Nicaragua **	99,013	31	-73.9%	12,015	-87.9%
Panama **	336,086	258,319	-4.3%	230,274	-31.5%
CENTRAL AMERICA	1,919,951	2,535,243	4.7%	2,748,392	43.1%
CBI TOTAL	8,930,246	6,895,789	-4.2%	7,235,155	-19.0%

* The most recent twelve-month period for which data are available -- Oct. 1989 to Sept. 1990 -- was chosen for comparison with the 1983 level of imports.

** Guyana and Nicaragua became CBI beneficiaries in November 1988 and November 1990 respectively. Panama was suspended from CBI eligibilty in March 1988, and restored in March 1990.

Source: Department of Commerce statistics. Data from 1983 are estimated because of conversion of classification and valuation systems.

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